

New Mexico Taxation and Revenue Department

Film Production Tax Credit

Certified Public Accountant Audit Overview & Procedures

I. Introduction

The following procedures relate to the requirements as stated in Section 7-2F-1(N) NMSA 1978. If the amount of the requested film production tax credit (in a single application) exceeds five million dollars (\$5,000,000), an application shall also include the results of an audit, conducted by a certified public accountant licensed to practice in New Mexico. These audits are to verify that the expenditures incurred during the production comply with the requirements of Section 7-2F-1 NMSA 1978. This requirement became effective July 1, 2011.

II. Guidelines for Production Company

A. Selection of the Certified Public Accountant (CPA).

The audit **must** be performed by a CPA licensed to practice in New Mexico.

The audit must include a copy of the CPA's license to practice in New Mexico and a notarized statement confirming that the CPA is independent from any other activities related to the film project for which they are auditing.

Prior approval of CPA selection is **not** required from the New Mexico Taxation and Revenue Department (TRD).

B. Scope and Objective of the Audit

The Department defines "CPA audit" as that phrase is used in Section 7-2F-1(N) NMSA, as agreed upon audit procedures as specified on the CPA Review Procedure Checklist.

The CPA will conduct agreed upon audit procedures of the production's records to ensure that they are in compliance with the requirements stated in Section 7-2F-1, for film production tax credit applications over \$5 Million.

The agreed upon procedures must include all New Mexico expenditures requested on the application.

The expenditures claimed in the credit application must be incurred during the taxpayer's tax year.

C. Audit Procedures

The CPA will ensure compliance with the requirements of Section 7-2F-1 NMSA 1978, film production tax credit and follow the guidelines for submission as set forth by TRD and the New Mexico Film Office.

The CPA will request and get approval from TRD for any sampling methods used to verify the expenditures included in an application.

Please follow verification procedures for accounts payable, petty cash journal entry and payroll expenditures as identified on the Review Procedure Checklist provided by TRD.

The CPA is to review payroll reports to verify and document that NM gross receipts tax was paid for all qualifying "Super Loan Outs".

The CPA is to review payroll reports to verify and document that withholding tax was deducted from payments to personal service business (super loan-out) pursuant to Subsection I of Section 7-3A-3 NMSA 1978 for the services of performing artists.

The CPA is to calculate the amount of the credit at 25% of the qualified New Mexico direct production and post production expenses.

D. Components of the Audit

The audit must include, ***at a minimum***, the following:

1. The CPA's Audit Report, including the name and contact information of the taxpayer's authorized representative conducting the audit.
2. The production company's electronic ledgers (Bibles), including, but not limited to:
 - i. Accounts Payable Bible
 - ii. Petty Cash Bible
 - iii. Payroll Bible
 - iv. Journal Entry Bible
 - v. Post Production Bible
3. Workpapers identifying exceptions; the workpapers shall be submitted by the taxpayer in Excel workpapers provided by TRD. Modifications to the specified workpapers must be approved by TRD.

E. Submission of the Audit and Technical Assistance

Once the CPA completes the audit, the production company must submit the audit report and workpapers to the New Mexico Film Office, in accordance with their required procedures. Once the Film Office ensures that all their requirements have been met, the entire credit package, including the audit report and related documentation, will be forwarded to TRD.

Questions regarding the CPA audit procedure for claiming the film production tax credit should be referred to:

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NOTE: TRD reserves the right to request additional information and documentation when reviewing the CPA's report and workpapers.